

Lehman Brothers Holdings Inc. Report to Unsecured Creditors Committee October 8, 2008

LEADERSHIP • PROBLEM SOLVING • VALUE CREATION



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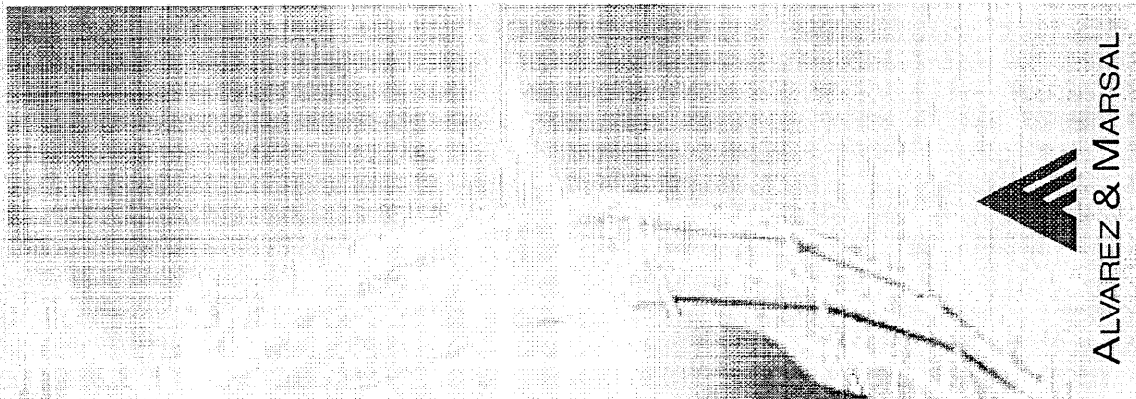
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Contents

- I. Operational Overview (Marsal)
- II. Liquidity (Coles)
- II. Significant Transactions (Fogarty / Ehrmann / Coles)
- III. Proposed Transactions (Ehrmann)
- IV. Asset Divestiture Team Issues
- V. Claims Management Issues (Suckow)
- VI. Wind-down (Fogarty)
- VII. Coordination with Administrators (Marsal)
- VIII. Protocols (Suckow)
- IX. Bailout Legislation (Marsal)



Contents



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I. Operational Overview (Marsal)

- A. Prioritize the Tasks
- B. Organizational Structure
- C. Key Challenges

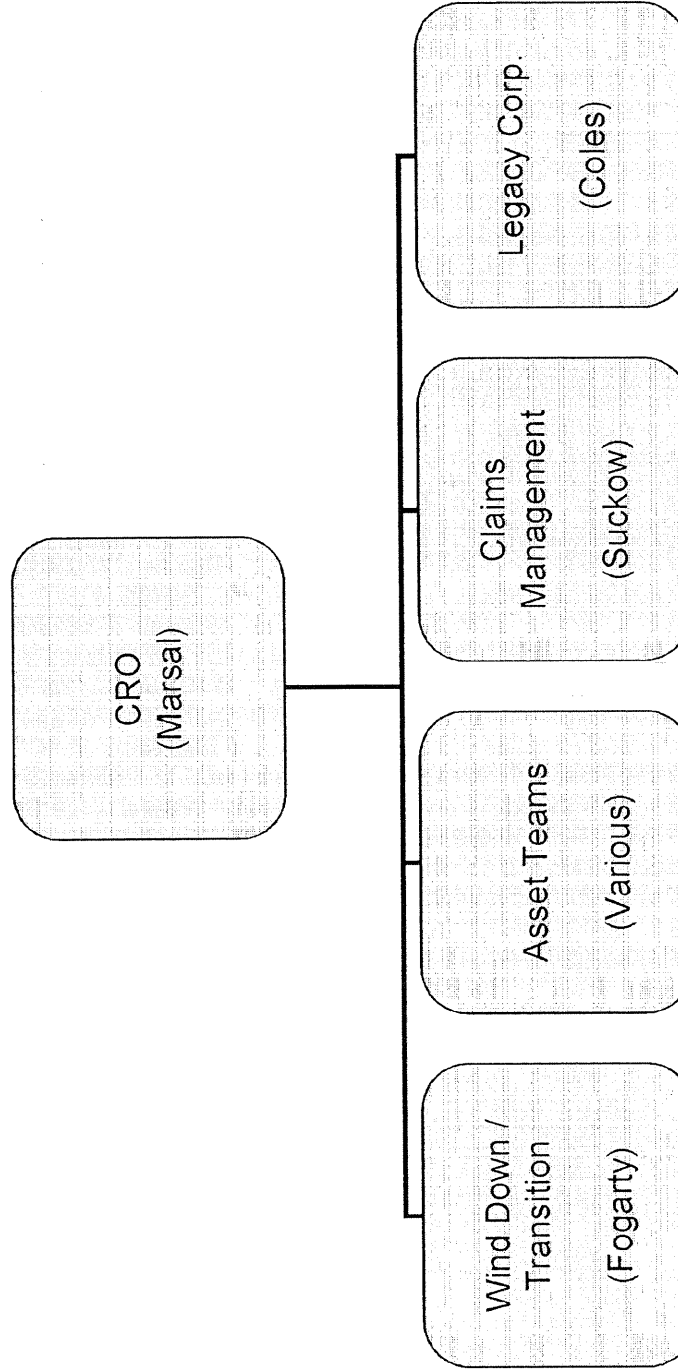
I. Operational Overview

A. Prioritize the Tasks

- #1 – Preserve, capture and store key data such that we can reconstruct transactions and events.
- #2 – Address immediate fires impacting asset values and claims.
- #3 – Identify and retain teams to work the problem.
- #4 – Determine pre-bankruptcy events giving rise to causes of action or mitigation of claims.

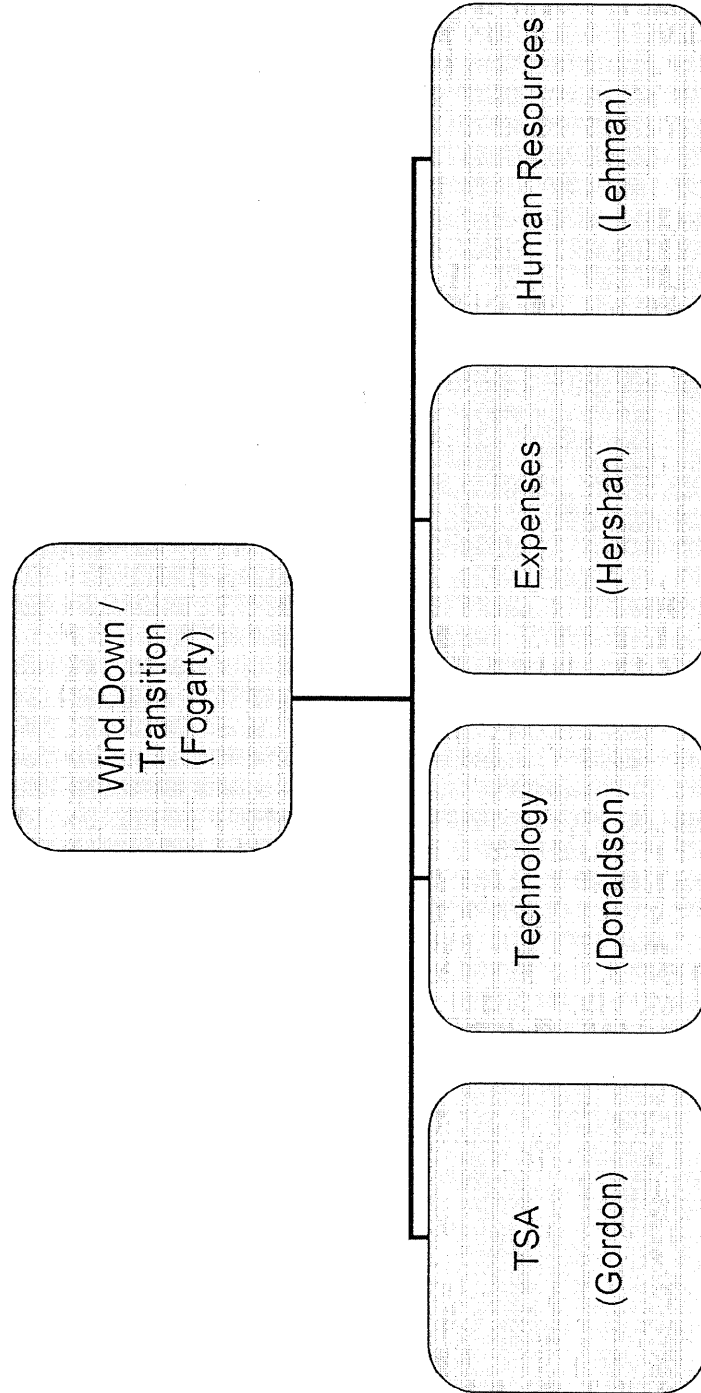
I. Operational Overview *(continued)*

B. Organizational Structure



I. Operational Overview *(continued)*

B. Organizational Structure *(continued)*



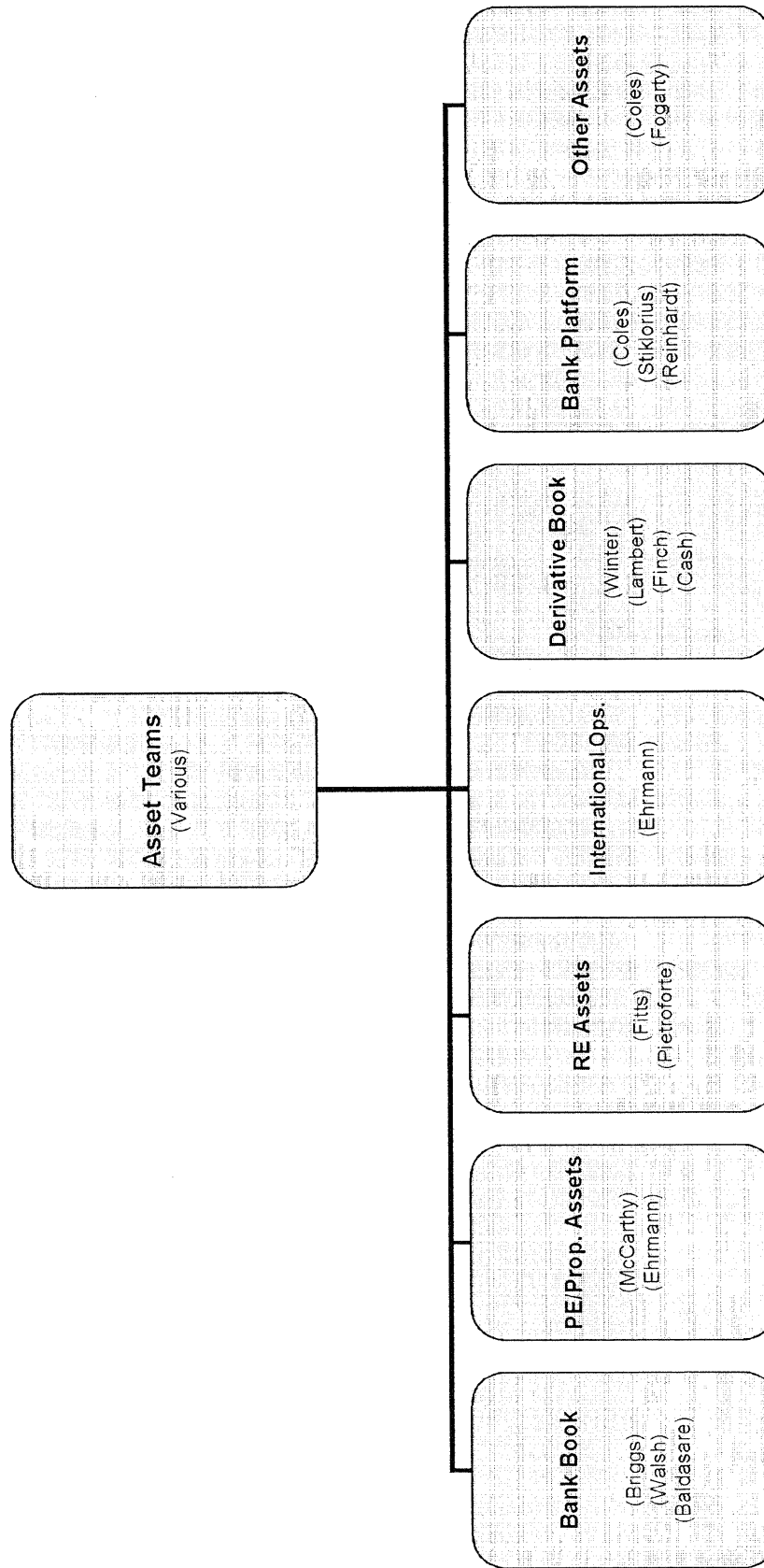
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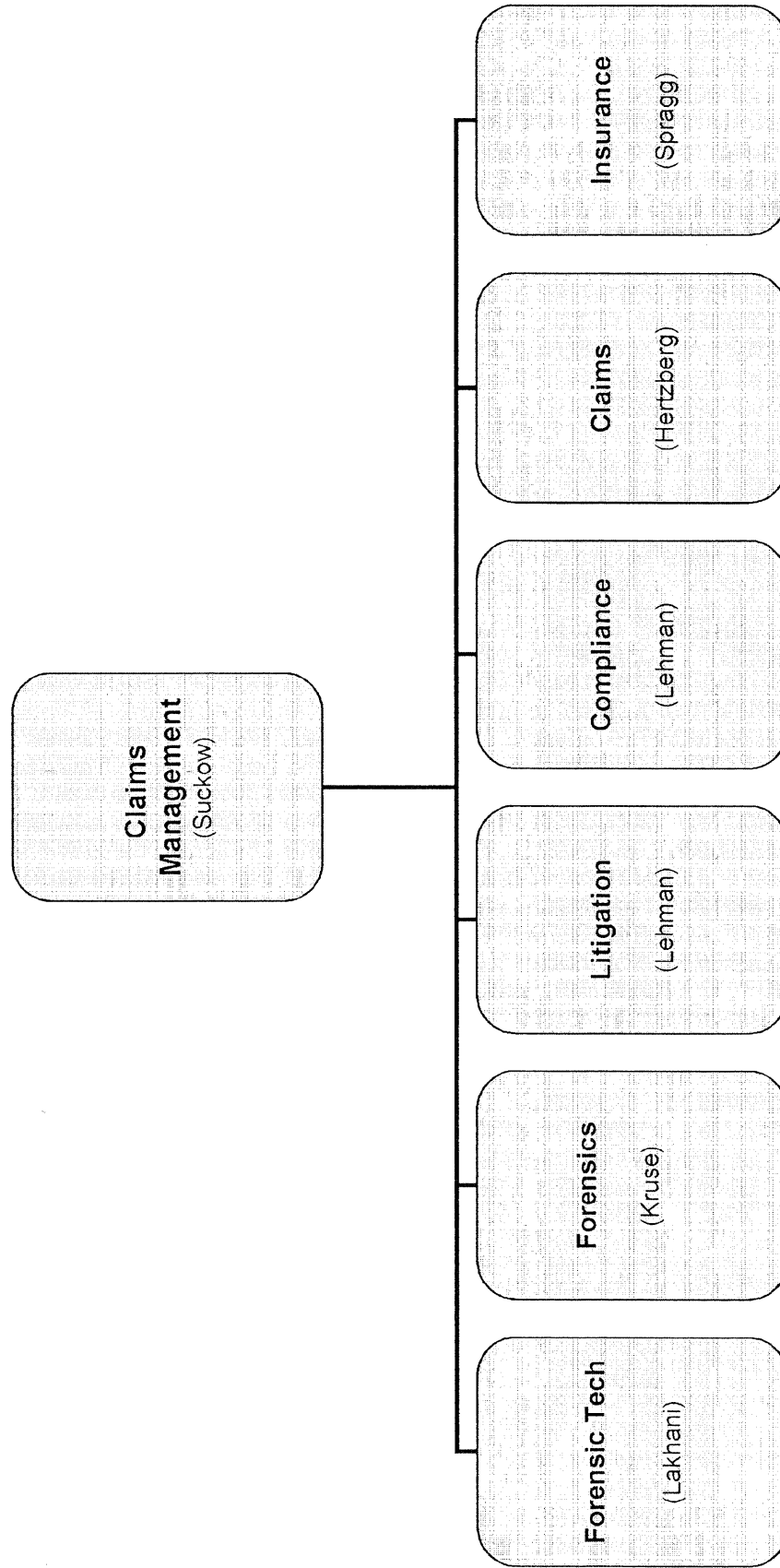
I. Operational Overview (continued)

B. Organizational Structure (continued)



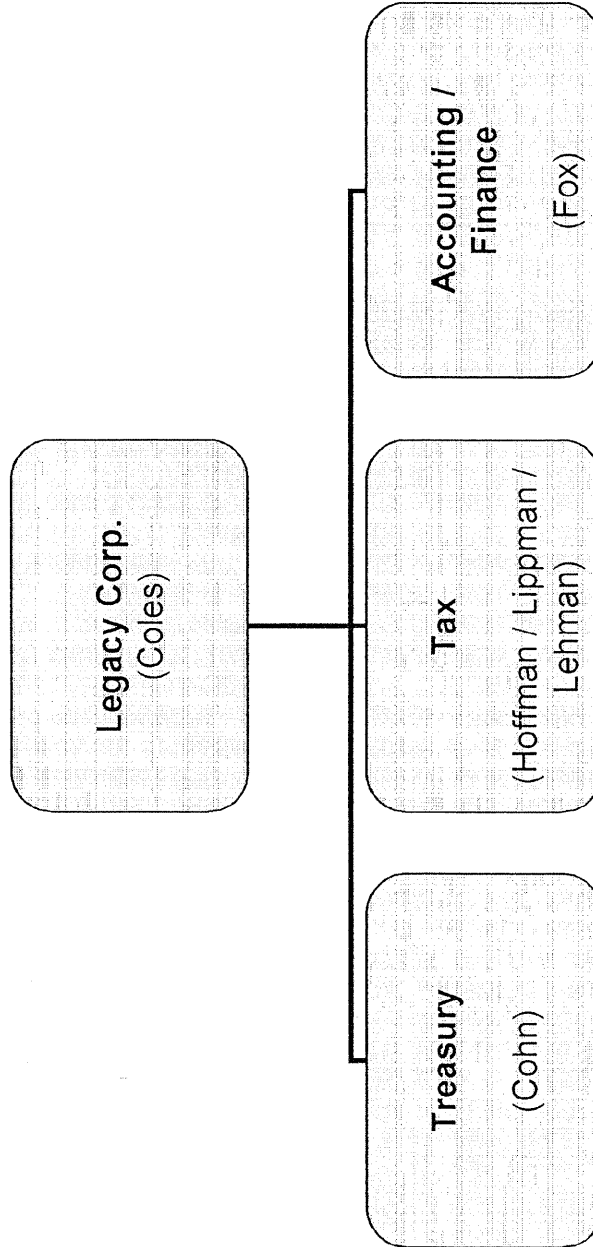
I. Operational Overview *(continued)*

B. Organizational Structure *(continued)*



I. Operational Overview *(continued)*

B. Organizational Structure *(continued)*



I. Operational Overview *(continued)*

C. Key Challenges

- Loss of Personnel
 - Transition Services Agreement really means best efforts;
 - Need to recruit and incentivize new team.
- Conflicting Priority
 - #1 Priority for the Estate is to stabilize;
 - Individual creditor priorities may differ.
- Administrative Independence
 - SIPC, UK (PwC), Asia (KPMG);
 - Advised of actions after the fact;
 - Inter-relationship is not understood.

Contents

II. Liquidity (Coles)

- A. Current Cash Position
- B. Cash Protection Strategy
- C. Cash Outflow Activities
- D. Cash Management Schematic
- E. Operating Cash Flow Forecast


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11

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II. Liquidity

A. Current Cash Position

- Since the bankruptcy filing on 9/15/08, we have increased our cash position by over \$1.2 billion primarily from the Barclays sale proceeds.

Bank Account Cash Balances (1)

(\$ in millions)

<u>Legal Entity</u>	<u>10/3/08 Balance</u>	<u>9/15/08 Balance</u>
Lehman Brothers Holdings Inc. - Legacy Accounts	\$ 100	\$ 92
Lehman Brothers Holdings Inc. - New Accounts (2)	1,270	0
Lehman Brothers Special Financing Inc. (3)	7	53
Other Lehman Brothers Holding Inc. Subsidiaries	695	693
Neuberger Berman LLC	838	848
Total	<u>\$ 2,910</u>	<u>\$ 1,686</u>

Notes:

- (1) Excludes Lehman Brothers Inc, Lehman Brothers Bank, and Lehman Brothers Commercial Bank
- (2) Established at Barclays Bank to hold proceeds of DIP Loan and Sale
- (3) \$416 million taken from Lehman Brothers Special Financing Inc. and \$64 million taken from Lehman Brothers Commodity Services on 10/3 by JP Morgan Chase

II. Liquidity (continued)

A. Current Cash Position (continued)

Account Balances at Barclays Bank for Lehman Brothers Holdings Inc. Debtor

(\$ in millions)

Description	10/3/08 Balance	Opening Balance	Net Change	Notes
LBHI - 745 Building Proceeds	\$ 759	\$ 959	\$ (200)	DIP loan payoff
LBHI - Sales Proceeds	175	220	(45)	Normal operating cash flows
LBHI - DIP Operating Account	227	187	39	Normal operating cash flows
745 Building Proceeds in LBI account (1)	110	110	-	Error in funds flow to LBI account of 745 proceeds
Total	\$ 1,270	\$ 1,476	\$ (206)	

DIP Borrowings (2)	\$ -	\$ (200)	\$ 200	DIP loan payoff
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Notes:

- (1) Currently in negotiation with the SIPC trustee for release of these funds.
(2) DIP borrowings included approximately \$13 million in fees and expenses. The DIP payoff included approximately \$1 million in additional interest and fees. The actual fees due to Barclays are in dispute.

II. Liquidity (continued)

B. Cash Protection Strategy

- Since early on in the case, A&M has been working to establish new operating accounts
- The population of eligible financial institutions willing and able to take on Lehman funds (based on expected deposit size) and neutral in terms of counterparty risk is small
- We selected US Bank and nine accounts are now open
- The cash management strategy is being executed as follows:

Action	Status
Notify counterparties to redirect remittances to US Bank	Commenced
Test US Bank systems and transfer existing balances to US Bank	Begin on 10/8
Close original accounts at Chase and Citi to prevent capture of future remittances	Begin on 10/9

II. Liquidity (continued)

B. Cash Protection Strategy (continued)

Bank Account Cash Balances as of 10/3/08

(\$ in millions)

Legal Entity	Citibank	Chase	Barclays	Other	Total	US Bank Status
Debtors						
Lehman Brothers Holdings Inc.	\$ 122.1	\$ (23.5)	\$ 1,270.3	\$ 1.3	\$ 1,370.2	Open
Lehman Brothers Derivative Products Inc.	0.0	296.1	-	0.8	296.9	Open
Lehman Brothers OTC Derivatives Inc.	-	131.8	-	-	131.8	Open
Lehman Brothers Commodity Services Inc	30.1	-	-	0.0	30.2	Open
Lehman Commercial Paper Inc.	13.3	0.2	-	-	13.5	Open
Lehman Brothers Commercial Corporation	8.0	-	-	-	8.0	Open
Lehman Brothers Special Financing Inc.	0.7	0.4	-	6.0	7.1	Open
Lehman Brothers Financial Products Inc.	0.0	3.9	-	2.7	6.6	Open
Other (1)	2.3	0.1	-	-	2.4	
Subtotal	\$ 176.4	\$ 409.0	\$ 1,270.3	\$ 10.8	\$ 1,866.5	
Non-Debtor Entities						
Neuberger Berman LLC (2)	\$ 752.0	\$ 85.6	\$ 0.0	\$ 0.0	\$ 837.7	Pending
Lehman Brothers International - Europe	11.4	3.4	-	89.5	104.3	
Luxembourg Finance S.a.r.l.	24.9	-	-	-	24.9	
Luxembourg Trading Finance S.a.r.l.	22.9	-	-	-	22.9	
Other	12.0	1.6	-	40.4	54.0	
Subtotal	\$ 823.3	\$ 90.6	\$ 0.0	\$ 129.9	\$ 1,043.8	
Total	\$ 999.7	\$ 499.6	\$ 1,270.3	\$ 140.6	\$ 2,910.3	

Notes:

- (1) Lehman Brothers Finance SA, Lehman Scottish Finance LP, CES Aviation LLC, CES Aviation V LLC, CES Aviation IX East Dover Limited, Fundo de Investimento Multimercado Credito Privado
- (2) Cash moved from Citibank to a Neuberger Berman managed Treasury mutual fund on 10/6/08



I. Liquidity (continued)

C. Cash Outflow Activities

New Bank Account Balances for Lehman Brothers Holdings Inc. Debtor

(\$ in millions)

LBHI - 745 Building Proceeds

Opening Balance (9/22)	\$ 959
Less: DIP Loan Payoff	(200)
Ending Balance (10/3)	<u>\$ 759</u>

LBHI - Other Sales Proceeds

Opening Balance (9/22)	\$ 220
Less: PE Capital Calls	(40)
Less: Net Loan to PE Fund to Close SRAM Deal	(15)
Plus: PE Fund Distributions	2
Plus: Other	9
Ending Balance (10/3)	<u>\$ 175</u>

3 separate calls for \$25M, \$15M, and \$300K

Distribution from USPF III Calypso Fund
Normal course operating cash flows

LBHI - DIP Operating Account

Opening Balance (9/18) - DIP loan	\$ 187
Less: Rent	(7)
Less: Real Estate Capital Calls	(5)
Less: Payroll	(3)
Less: Other	(4)
Plus: XO Jet Note Payoff and Other	59
Ending Balance (10/3)	<u>\$ 227</u>

October rent on over 50 locations

Payroll for remaining LBHI employees
Normal course operating cash flows



II. Liquidity *(continued)*

D. Cash Management Schematic

- Overview – Integration with LBI
 - Payroll, benefits and employee related obligations – disbursed under the LBI ID #;
 - Accounts payable - Indian BPO to code and process invoices and checks and ACH payments done in U.S. thru LBI accounts;
 - Subsidiary businesses maintained separate accounts for business operations outside of the LBI process.
- Situation – Two different bankrupt estates
 - SIPC proceeding put all LBI bank accounts under the control of the SIPC Trustee;
 - All outstanding payroll and A/P checks were bounced by the banks;
 - LBHI and affiliates need the continuing cooperation of the SIPC Trustee to permit use of LBI bank accounts until new accounts and procedures are put in place.

II. Liquidity (continued)

D. Cash Management Schematic (continued)

- Progress, Protocols, and Outstanding Issues
 - Worked out a protocol with the Trustee to use payroll accounts going forward - new funding must be deposited to cover all disbursements.
 - Working out a protocol with the Trustee to use the Citibank account for checks and ACH disbursements going forward. (Similar process to payroll - new funding must be deposited to cover all disbursements).
 - Weil Gotshel providing data to Hughes Hubbard to support LBHI asset sale and prove that the underlying Data Centers were NOT LBI assets.
 - The Trustee has acknowledged LBI's obligation on the 450 bounced payroll checks and is going to court for approval to correct payroll mistake.

II. Liquidity *(continued)*

D. Cash Management Schematic *(continued)*

- DIP Credit Agreement
 - Chapter 11 filing and DIP agreement were negotiated prior to the completion of the LBI / Barclays transaction.
 - DIP was insurance to provide the estate with liquidity in case the Barclays transaction was delayed or failed to close on a timely basis.

II. Liquidity *(continued)*

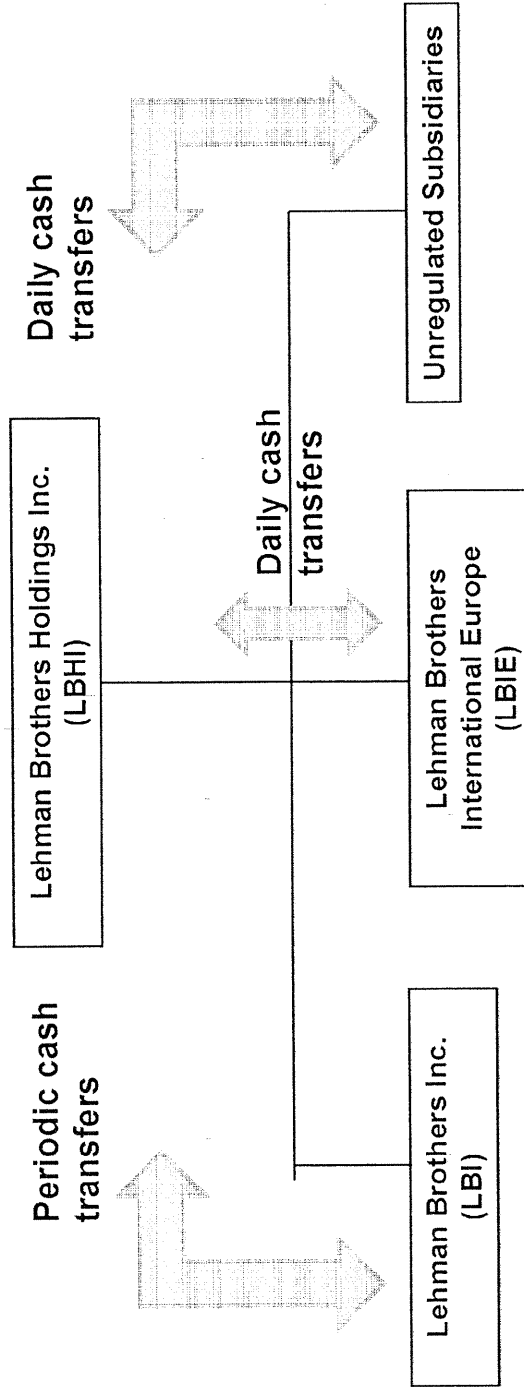
D. Cash Management Schematic *(continued)*

➤ DIP History

- 9/18: With preliminary approval, interim draw made of \$200 million of DIP loan (fees paid of \$12 million);
- 9/22: Barclays transaction closes and funds are transferred;
- 10/3: LBHI notifies Barclays of intent to pay off DIP loan and terminate commitment prior to final DIP approval hearing;
 - Barclays requests termination fee of \$7.5 million;
 - LBHI paid off the DIP (\$200 million plus outstanding interest) but without \$7.5 million fee;
- 10/6: Barclays formally notifies LBHI that it believes that the \$7.5 million is owed under the DIP and says its super-priority liens remain in place.

II. Liquidity *(continued)*

D. Cash Management Schematic *(continued)*



➤ Conclusion: LBHI is a bank that lends to its operating subs each day and sweeps the cash at the end of each day. This is a straight forward, zero balance cash management system. LBIE would not expect to have cash at the beginning or end of the day.

II. Liquidity (continued)

D. Cash Management Schematic (continued)

➤ Lehman Entities Cash Sweeps

- LBHI served as the banker for the regulated and unregulated subsidiaries in the Lehman entities group. Daily sweeps or funding was ordinary course of business between domestic and European entities.
- LBI - as between LBI and LBHI, excess cash was made available to LBHI. shortfalls were covered by LBHI. A minimum \$3 billion payable was maintained between LBI and LBHI to compensate for paymaster responsibilities of LBI.
- LBIE - in line with overseas regulatory requirement, LBHI (through LBHI-UK) funded or swept money from LBIE on a daily basis.
- LBHI (through LBHI-UK) - funded the overseas operations of the Lehman Group. Daily cash in excess of needs was sent to the US, or shortfalls were funded by the US.

II. Liquidity (continued)

D. Cash Management Schematic (continued)

- Restricted Bank Accounts – JPM Chase (JPM);
 - Background - JPM was principal clearing agent for LBHI and LBI;
 - Collateral:
 - Principally cash, money market funds and commercial paper;
 - Such collateral was posted by LBHI and LCPI increasingly from June thru September 2008;
 - JPM originally required collateral for intraday clearance activity;
 - Beginning in late August, JPM required wider and deeper rights of offset regarding subsidiary obligations;
 - As of September 19, 2008 LBI's obligations to JPM were approximately \$23 billion, supported by LBI collateral which were alleged to be insufficient to cover such obligations;
 - A&M has alerted the SIPC Trustee of our concern that JPM may "fire sale" the LBI collateral;
 - JPM has frozen many bank accounts activity and balances (LBHI and subs maintain over 250 accounts at JPM).

II. Liquidity *(continued)*

D. Cash Management Schematic *(continued)*

- Restricted Bank Accounts – Citibank:
 - Citibank acts as principal bank for foreign currency accounts;
 - LBHI and subs maintain over 120 accounts at Citibank;
 - Citibank has frozen many bank account's activity and balances.



II. Liquidity *(continued)*

E. Operating Cash Flow Forecast

- 13 Week (and longer term) cash flow model in process.
- Several challenges exist:
 - Decentralized activity -- no central cash planning or budget available;
 - Each area identified and investigated separately;
 - The following significant areas are identified and under research:
 - Real Estate development project capital calls;
 - Private Equity investment capital calls;
 - Operating Costs: General -- primarily occupancy charges, compensation for legacy employees and ordinary course professional fees; Restructuring Fees -- primarily legal and business / financial advisory; Transition Service Agreement (TSA) -- specific services and charges are under review;
 - TSA allocation methodologies need to be developed;
 - Operating Funds for Domestic and International Subsidiaries;
 - Investment revenues, asset / business sales and maturities.

II. Liquidity (continued)

E. Operating Cash Flow Forecast (continued)

- Cash flow planning also impacted by lack of visibility of consolidating balance sheet assets as of the date of the bankruptcy filing and post-bankruptcy.
 - The 9/14/08 balance sheet will not be available until early November 2008.
 - Control and supervision over the general ledger was compromised following the bankruptcy filing.
 - Normal consolidation requires 84 data feeds, over 25 data systems and approximately 8,000 reviews of manual journal entries.
 - Certain international regions are uncooperative; 8 to 10 data feeds for 9/14/08 are yet to be received.
 - Bank reconciliations since 9/14/08 have generally not been performed; instructions given to reinstate process.
 - Trading activity on and around 9/14/08 not all recorded and reconciled despite significant effort by operations personnel.
 - Intercompany balances not reconciled since 8/31/08.

Contents

III. Significant Transactions

- A. Sale of Lehman Brothers, Inc. / Broker Dealer to Barclays (Fogarty)
- B. Sale of Investment Management / Neuberger Berman to Bain – H&F (Fogarty)
- C. Sale of Lehman Asia Trading / IB to Nomura (Ehrmann)
- D. Sale of Indian Processing Center to Nomura (Coles)



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III. Significant Transactions

A. Sale of Lehman Brothers, Inc. / Broker Dealer to Barclays (Fogarty)

- Assets Purchased
 - \$43.1 Billion Repo Assets – Book value per Lehman 'stale' marks; negotiated a \$5.0 billion reduction;
 - \$1.9 Billion Unencumbered Box;
 - \$1.5 Billion Building and Data Centers;
 - \$0.8 Billion 15-c-3-3 Securities – any excess will accrue to Lehman Brothers, Inc.
- Liabilities Assumed
 - \$38.0 Billion Extinguished Liability to Fed;
 - Assumed Cure Liability;
 - Assumed Severance Liability.
- Cash Consideration of \$1.79 Billion

III. Significant Transactions (continued)

A. Sale of Lehman Brothers, Inc. / Broker Dealer to Barclays (Fogarty) (continued)

- Transaction Advantages
 - Landed 9,100 employees and assumed associated liabilities;
 - Fed was fully repaid;
 - Provided funding to run Chapter 11.

III. Significant Transactions (continued)

B. Sale of Investment Management / Neuberger Berman to Bain – Hellman & Friedman (Fogarty)

- High Net Worth Individuals / Corporates - Closed Architecture (Neuberger Berman Equity Funds, Lehman Brothers Asset Management Fixed Income Funds).
- Incl. Private Fund Investment Group and Co Investment Group (GP Interest only); Excl. Merchant Banking, Venture Capital and Real Estate.

	LTM (\$ in millions)	Implied EBITDA Multiple
Revenue	\$ 1,450	
EBITDA	262	
Gross Purchase Price	\$ 2,150	
Employee Retention Accrual	(400) *	
Liberty View Backstop	(88) **	
	1,662	
Retained Cash	(100)	
Net Purchase Price	\$ 1,562 ***	6.0 x

* Obligation which Bain / H&F take on to ensure retention of key people assets.

** \$110 million backstop for Liberty View - assume 20% recovery.

*** Key working capital adjustment is 2008 bonuses of approximately \$230 million. Bonuses are typically payable 1/31/09 - i.e. if closing occurs after 1/31/09 will be negative working capital adjustment.



III. Significant Transactions *(continued)*

B. Sale of Investment Management / Neuberger Berman to Bain – Hellman & Friedman (Fogarty) *(continued)*

Key Issues

- *Purchase Price Adjustment* - Market / S&P 500; outflows; audit; unknown/undisclosed liabilities; revenue run rate; portfolio manager exodus.
- *Walk Away Rights* - Lose > 30% of revenue; lose PMs associated with > 20% of revenue; S&P decline > 25%.
- *FY '08 Bonuses* - Ensure employee confidence in bonus pool.

III. Significant Transactions *(continued)*

C. Sale of Lehman Asia Trading / IB to Nomura (Ehrmann)

- Asset Overview
 - Asian and Asia Pacific Operations excluding Indian Business Processing Operations and excluding Asset Management Division

➤ Sale Overview

(\$ in millions)			
Assets		Liabilities Assumed	
FF&E Book Value			
Furniture/Fixtures	\$ 65.2	Employee Offers	3,000
Equipment	121.8	Leasehold Obligations*	
	<u>187.0</u>		
Discount	12.5%		
FF&E Price	\$ 163.6		
Goodwill	47.7		
Transaction Costs	10.0		
Purchase Price	<u>\$ 221.3</u>		

*Seller entities

➤ Issues

- Proceeds to largely flow to entities in receivership.



III. Significant Transactions (continued)

D. Sale of Indian Processing Center to Nomura (Coles)

- Indian Processing Center comprises three separate legal entities in Special Economic Zone in Mumbai;
- Ownership through various Asian intermediate subsidiaries;
- 3,000 employees, largely involved in captive global servicing, \$150 million annual cost base;
- Highly skilled and marketable work force;
- Company locally commenced sale process;
- A&M / BMR advisors took over and co-ran expedited sale process;
- Three bids received for the shares of the companies:
 - IBM \$5 Million
 - EXL \$20 Million
 - Nomura \$50 Million (initial)
 - Nomura \$70 Million (final, accepted)

III. Significant Transactions (continued)

D. Sale of Indian Processing Center to Nomura (Coles) (continued)

(\$ in millions)

\$70.0	Basic deal, pre-intercompany
7.7	Adjustment for net intercompany receivable increase
<u>77.7</u>	Consideration
(13.0)	Net LBHI pre-petition receivable set-off
<u>64.7</u>	
(0.5)	Local advisors paid at closing
<u>64.2</u>	
(11.3)	Escrow for post-petition intercompany receivables
<u>52.9</u>	
	Allocation to Non-Debtors (principally an entity under KPMG administration)
<u>(3.7)</u>	Flowing to LBHI, before escrow. Funds at HSBC.
<u><u>\$49.2</u></u>	



Contents

IV. Proposed Transactions

- A. Sale of Eagle Energy to EDFT (Ehrmann)
- B. Sale of Lehman Europe Trading / IB to Nomura (Ehrmann)
- C. Sale of R-3 (Ehrmann)



IV. Proposed Transactions

A. Sale of Eagle Energy to EDFT (Ehrmann)

- Asset Overview
 - Provider of energy and marketing services (management, transportation, transmission, load and storage of natural gas and electricity on behalf of wholesalers) that Lehman acquired in May'07 for \$350 million and invested an additional \$663 million into the project.

➤ Sale Overview

(\$ in millions)

<u>Assets</u>	August Adjusted	Low		High	
		%	\$	%	\$
Gas in Storage	\$ 89	70%	\$ 62	80%	\$ 71
Trade Receivables/MTM	1,033	70%	723	80%	826
LBCS Receivable	20	-	-	-	-
Prepaid supply	493	-	-	-	-
	<u>1,634</u>	<u>48%</u>	<u>785</u>	<u>55%</u>	<u>897</u>
Less Estimated Wind-Down Costs		3%	(24)	3%	(27)
Assets Available for Distribution			<u>761</u>		<u>870</u>
<u>Claims</u>					
Penalties Payable			1,746		1,000
Trade Accounts Payable	944	100%	944	100%	944
LB Intercompany	664	100%	664	100%	664
Goodwill/APIC	49	-	-	-	-
Total Claims	<u>\$ 1,657</u>		<u>\$ 3,354</u>		<u>\$ 2,608</u>
Recovery			23%		33%
Lehman Recovery			151		222
EDFT Purchase Price			230		230
Liquidation Alternative			<u>\$ (79)</u>		<u>\$ (8)</u>



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IV. Proposed Transactions *(continued)*

B. Sale of Lehman Europe Trading / IB to Nomura (Ehrmann)

- PwC is handling this sale and have indicated the following:
 - Nomura will be purchasing people and fixed assets relating to the UK trading and investment banking activities;
 - Nomura is assuming severance and ongoing operating payables.
- Reverse TSA from PwC to Nomura (PwC stays in control of back end).
- PwC, as receiver, has retained staff of traders to unwind the book of transactions and controls the technology underpinning these transactions.

IV. Proposed Transactions (continued)

C. Sale of R-3 (Ehrmann)

- Asset Overview
 - Credit-driven hedge fund spun out of Lehman Brothers in May '08
- Sale Overview

(\$ in millions)

	GP		LP		Total
<u>Funded Capital</u>					
Non Lehman	\$	13.8	\$	1,167.8	\$ 1,181.6
<u>Lehman Brothers</u>		11.3		1,078.0	1,089.3
Total Funded	\$	25.0	\$	2,245.8	\$ 2,270.8
Lehman		45%		48%	



IV. Proposed Transactions (continued)

C. Sale of R-3 (Ehrmann) (continued)

➤ Sale Overview (continued)

(\$ in millions)

Lehman NAV Share	Allocation of Bankruptcy	
	48%	100%
8/31 Estimated NAV	\$ 2,172.4	\$ 1,041.4
September Losses	(120.0)	(57.5)
Fees & Expenses	(9.6)	(4.6)
Cash Locked Up in Bankruptcy	(589.0)	(282.4)
Adjusted NAV	<u>\$ 1,453.8</u>	<u>\$ 696.9</u>
		<u>\$ 322.8</u>

Purchase Price

Cash	(a) \$ 250.0
LP interest in R-3	250.0
	<u>\$ 500.0</u>

(a) 50% of cash at closing / balance at 5/31/09

➤ Issues

- "Melting Ice Cube": challenge to hold deal together through closing.



Contents

V. Asset Divestiture Team Issues

- A. Bank Book (Briggs)
- B. PE / Proprietary Assets (McCarthy)
- C. Real Estate Assets (Fitts / Pietroforte)
- D. International Operating Assets (Ehrmann / Coles)
- E. Derivatives Book (Winter)
- F. Bank Platforms (Coles)
- G. Other Assets (Fogarty / Coles / Suckow)


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40

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V. Asset Divestiture Team Issues

A. Bank Book (Briggs)

- Global C&I Loan Portfolio Summary
(\$ in millions)

Global Portfolio Summary (10/2/08)

		Commitment	Funded	Unfunded
Total	Hi Grade	\$28,354	\$5,474	\$22,880
	Hi Yield	8,023	4,380	3,643
	Total	36,377	9,855	26,522
U.S.	Hi Grade	21,023	3,937	17,086
	Hi Yield	6,529	3,413	3,116
	Total	27,552	7,350	20,202
Non-U.S.	Hi Grade	7,331	1,537	5,794
	Hi Yield	1,493	967	526
	Total	8,824	2,504	6,320

- Includes Firm Relationship Loans ("FRLs")
- Excludes additional loan commitments in other non-loan business units: derivatives, energy, and some structured vehicles (TRS's, CDO's) still being identified
- 78% of portfolio is investment grade
- 66% of portfolio is unfunded revolving credit facilities: \$1.4 billion in requests from 139 borrowers unmet since filing
- All credit risk hedging through CDS was lost due to LBHI bankruptcy defaults

V. Asset Divestiture Team Issues (continued)

A. Bank Book (Briggs) (continued)

➤ Global C&I Loan Portfolio Summary

Portfolio Statistics (10/2/08)

	HG	HY	Total
Number of Borrowers	230	243	473
Number of Loans	390	511	901
Number of Agencies	6	83	89
Number of Sub-Participations	14	66	80
% Drawn	19%	54%	27%
Avg. Maturity (years)	2.7	4.5	3.1
Weighted Avg. Mark to Market	91	86	89

➤ Important to transfer administrative burden to limit liability

➤ Many loans internally participated across lending vehicles

➤ Legal complexity will slow/constrict the portfolio liquidation, particularly with possible regulatory intervention (FDIC, OTS) and 3rd party (JPM/Sumitomo) collateral claims

US Portfolio by Entity (10/2/08) (\$ in millions)	
Total	27,552
LBHI	590
LCPI	7,336
LBB - Thrift	4,487
LBCB - Utah	10,921
Bankhaus	1,683
CDO's:	
Laodecia	193
Pine	1,184
Spruce	635
Verano	522

V. Asset Divestiture Team Issues *(continued)*

A. Bank Book (Briggs) (continued)

➤ Global C&I Loan Portfolio Summary

➤ Loan Trading Book

- In addition to the FRL book, there is a loan trading book with commitments to buy and sell
- The trading book wind-down is time critical and should be largely complete within 60 to 90 days

Unsettled Pre-petition Loan Trades (9/30/08)

(\$ in millions)

	<u>Number</u>	<u>Amount</u>
US Buys	299	\$ 1,099
US Sells	362	\$ 1,468

- The trading book includes inventory in the FRL portfolio, assets in separate par and distressed trading portfolios, and loans from other non-loan business units
- The LCPI (UK) Branch trading book includes an additional 200 trades (Value of buys and sells TBD)

V. Asset Divestiture Team Issues *(continued)*

A. Bank Book (Briggs) (continued)

- Global C&I Loan Portfolio Summary
- Wind-down Resource Requirements:

	A&M	Portfolio Management	Loan Ops	Legal	Accounting/ Control	Trading
Staffing	5	4	12	1	3	1
Systems	-	GLOW	Loan IQ	-	GFS	CATS

- Expected 12 to 18 month wind-down
- Estimated annual cost for retained Lehman staff: \$5.2M
- Wind-down Activity Since Filing:
 - Commitment Reductions: Staples - \$843M, CVS - \$371M, Citadel - \$100M
 - Open Trade Settlements: 134 settlements of 795 trades open at filing
 - LCPI Cash Collections: \$322M
 - Portfolio Data largely captured, chasing non-US and non-FRL assets
 - Lehman Team Identified



V. Asset Divestiture Team Issues (continued)

A. Bank Book (Briggs) (continued)

- Global C&I Loan Portfolio Summary
- Strategic Priorities:
 1. Identifying all loan assets across the Lehman legal structure (US and non US) and third party claims against assets
 2. Getting Lehman "Out of the Middle," reducing operational complexity/liability
 - Transferring agency roles to alternative banks
 - Elevating (true) loan participations to assignments
 3. Sale (if possible) of LBB (Delaware Thrift) and LBCB (Utah Bank) and related portfolios (Lazard)
 4. Establishing an asset sale process to maximize value/limit liability
 5. Orderly settling out of the Lehman loan trading book that maximizes liquidation recoveries
 6. Limiting liability from unfunded revolver draw requests



V. Asset Divestiture Team Issues *(continued)*

A. Bank Book (Briggs) (continued)

➤ Global C&I Loan Portfolio Summary

➤ Issues:

1. CDO's (Pine, Spruce and Verano) held by JPM/Barclay's (\$2.2B of C&I loans) complicating liquidation
2. Barclay's bid(s) for relationship agency roles and loans
3. Capturing loan assets originated/held outside of the Global Loan Portfolio (derivatives related, energy, non-US)
4. Risk of OTS and FDIC foreclosure on LBB (Delaware thrift) and LBOB (Utah bank) as well as third party claims complicate asset sales
5. Organization, governance and internal/external communication

V. Asset Divestiture Team Issues (continued)

B. PE / Proprietary Assets (McCarthy)

➤ Summary Principal Investments

- The below table provides a current summary of "principal investments" held on Lehman's balance sheet, broken down by asset class:

Category	(\$ in millions)	(\$ in millions)	(\$ in millions)
I. Private Equity Group:			
LP Interest in Lehman Funds	\$1,892	\$1,767	\$1,370
GP Interest in Lehman Funds	179	N/A	46
RE Mezz II Financing from Lehman	289	N/A	26
Warehouse & Failed Funds	384	N/A	297
SUBTOTAL	\$2,744		\$1,739
II. PE Co-Invests Outside the PEG (Approx 100 investments)	\$4,862	\$4,468	\$485
III. Minority Investments in Hedge Fund Holding Companies (3 investments)	\$1,272	\$1,165	\$860
IV. LP Investments in Private Equity and Hedge Funds (outside PEG):			
Non Lehman PE and HFs (DPI Funds & Relationship Investments)	\$2,200	\$2,239	\$854
Direct FOF Positions/Other	548	407	42
SUBTOTAL	\$2,748		\$896
V. "Strategic" Investments in Investment Banking Operations	\$466	\$1,360	N/A
VI. Large Semi Illiquid Public Holdings	\$655	N/A	N/A
TOTAL PRINCIPAL INVESTMENTS (a)	\$12,748		\$3,981

Notes to table:

(a) Does not include the \$724M related to IMD Asset Mgmt Seed



47 CONFIDENTIAL – For Discussion Purposes Only

V. Asset Divestiture Team Issues (continued)

B. PE / Proprietary Assets (McCarthy) (continued)

Private Equity Group ("PEG")

(\$2.7B carry value; \$1.7B committed/unfunded capital; approximately \$29B total capital under management)

- Situation:
 - The firm manages a multitude of funds that are primarily backed by outside institutional investors.
 - Lehman's LP investment typically represents ~ 15% of total committed / invested capital of each fund.
 - Near-term (9/15-10/15) capital calls ~\$100M funded; default often results in punitive dilution of Lehman's interest.

PE Co-invests Outside the PEG

(\$4.8B carry value)

- Situation:
 - Lehman holds ~100 co-investments (side-by-side investment directly in portfolio companies of PE clients).
 - These investments were not administered or held in a common vehicle, but were spread around the LBI subsidiaries.
 - Limited liquidity in most cases and will most often require independent negotiations for each exit. Investment documents and financials are not held centrally and may be difficult to obtain in some cases.

V. Asset Divestiture Team Issues (continued)

B. PE / Proprietary Assets (McCarthy) (continued)

Minority Investments in Hedge Fund Holding Companies

(\$1.2B carry value)

➤ Situation:

- Lehman made significant investments (\approx 20% ownership) in three HF management companies (i.e. DE Shaw, Spinnaker Capital, The Osprey Group).
- Unlikely to be an optimal time to sell these interests due to market condition.

LP Investments in Private Equity and Hedge Funds (outside PEG)

(\$2.7B carry value)

➤ Situation:

- Tactical LP investments in various funds to support investment banking efforts.
- Investments range widely with respect to size, liquidity and type of fund (e.g. large cap, venture, first time fund).

V. Asset Divestiture Team Issues (continued)

B. PE / Proprietary Assets (McCarthy) (continued)

“Strategic” Investments in Investment Banking Operations

(estimated \$466M carry value)

- Situation:
 - Lehman is a direct shareholder in a number of start-up and established boutique investment banking operations, trading operations, exchanges, and other finance related firms (e.g. NYSE; Thomson Financial; FOREX).
 - BarCap has expressed interest in a number of these positions.

Large Semi Illiquid Public Holdings

(estimated \$655M carry value)

- Situation:
 - Lehman holds a number of other illiquid / semi liquid assets (e.g. equity & mezz stakes, warehoused pre-fund investments (both direct interests and fund-of-funds)). These assets vary widely and some require significant attention (e.g. interest in KSK (India)). Objectives and timing will need to be determined on a case by case basis.

V. Asset Divestiture Team Issues (continued)

B. PE / Proprietary Assets (McCarthy) (continued)

Action Plan

- Immediate actions taken:
 - Determine / monitor near term cash requirements and projected cash inflows
 - Run default analysis on each fund /firm requiring capital
 - Make recommendation related to meeting capital calls
 - Assess quality / value of investments and funds
 - Work with management to right-size staff / budget of PE platform
 - Create communication plan for co-investors and LPs of fund
 - Fill vacant directors seats

V. Asset Divestiture Team Issues *(continued)*

B. PE / Proprietary Assets (McCarthy) (continued)

Action Plan

➤ Medium Term Action Plan:

- Assess value of each interest, monitor financial performance, and develop exit plan
- Work with agent to assess ability to liquidate marketable interests
- Assess transfer restrictions in fund documents and SHAs
- Monitor / assess PEG spin-out process
- Negotiate opportunistic sale of investment stakes to co-investors / outsiders
- Monitor / wind down remaining portfolio over time

V. Asset Divestiture Team Issues *(continued)*

B. PE / Proprietary Assets (McCarthy) *(continued)*

Team

- Building a Principal Investment Management Team to manage ongoing portfolio
 - Identified ~15 professionals to staff portfolio management team
 - Competencies include; principal investing, M&A, and transaction oriented legal

V. Asset Divestiture Team Issues *(continued)*

B. PE / Proprietary Assets (McCarthy) *(continued)*

High Priority Matters

- Lehman Private Equity Businesses
 - Venture Capital – sale process underway (Lazard consulting)
 - CDO Funds – offer being considered (Lazard / Houlihan consulting)
 - Merchant Banking – sale process underway (Lazard acting as agent)
 - Real Estate PE – sale process underway (Lazard acting as agent)
- Hedge Fund Stakes
 - Spinnaker Capital (offer received)
 - One Williams Street (offer received)
- Sky Power: majority ownership position in Canadian wind-farm developer (sale process underway)

V. Asset Divestiture Team Issues *(continued)*

C. Real Estate Assets (Fitts / Pietroforte)

➤ Asset Overview

- Lehman's real estate portfolio consists of three general types of assets: commercial, residential and corporate real estate.

➤ Commercial:

- Includes Real Estate Mortgage Inventory, Held for Sale, Corporate Equity and Corporate Debt

(\$ in billions)

Americas	\$ 22.0	\$5.0 Billion Unencumbered
Europe	8.2	\$2.0 Billion Unencumbered
Asia	7.3	
Total	<u>\$ 37.5</u>	

V. Asset Divestiture Team Issues (continued)

C. Real Estate Assets (Fitts / Pietroforte) (continued)

➤ Residential (including all structured finance assets):

(\$ in billions)	
Whole Loans	\$ 1.2
<u>Securities:</u>	
MBS	11.5
Governments	8.8
ABS	3.4
Agencies	3.2
Other	0.1
Total	<u>\$ 28.1</u>

V. Asset Divestiture Team Issues *(continued)*

C. Real Estate Assets (Fitts / Pietroforte) (continued)

- Corporate Real Estate:
 - Primarily leasehold interests with 71 locations
 - 5 locations with 419,729 square feet of support operations;
 - 10 locations are occupied for LBB/MCD operations (including 4 owned locations);
 - 33 leases are recommended for review (11 with Lehman occupancy, 7 with subtenants and 15 without subtenants);
 - 14 leases are recommended for rejection upon vacating space;
 - 9 non-operating leases to be rejected.

V. Asset Divestiture Team Issues (continued)

C. Real Estate Assets (Fitts / Pietroforte) (continued)

- Asset Overview (continued)
- Summary of Americas Commercial Positions:

(\$ in millions)

Unencumbered Assets	
Entity	Basis
ALI	\$ 509.6
LBHI	1,621.9
LCPI	211.5
PAMI	2,485.1
Total	\$ 4,828.1

Pledged Assets	
Seized Assets	Counterparty
	Basis
	\$ 2,124.8
	849.7
	777.4
	2,949.3
	121.4
	2,014.2
	2,762.2
	308.5
	88.6
	1,101.5
	77.6
	812.6
	197.8
	346.3
	1,141.7
	1,442.0
	\$ 17,115.6

- Unencumbered assets include \$1.5 billion in Archstone bridge equity and \$270 million in various SunCal positions.



V. Asset Divestiture Team Issues (continued)

C. Real Estate Assets (Fitts / Pietroforte) (continued)

- Core Team has been identified:
 - US Commercial Real Estate - 50 employees;
 - Residential Real Estate - 30 employees;
 - Corporate Real Estate - 10 employees.
- Have commenced discussions with key personnel.
- Have negotiated agreements in principle with certain key former Lehman employees.



V. Asset Divestiture Team Issues (continued)

C. Real Estate Assets (Fitts / Pietroforte) (continued)

➤ Key Issues:

- Execute personnel retention strategy;
- Determine validity of certain financing arrangements with JPM;
- Attempt to negotiate stand-still agreements with financing counterparties;
- Execute transactions in the ordinary course of business;
- Determine short term funding requirements;
- Determine liquidation strategy and timeline for all assets.

V. Asset Divestiture Team Issues (continued)

D. International Operating Assets (Ehrmann / Coles)

➤ Overview

- Divided world into three work streams: (i) Asia & Asia Pacific; (ii) Europe & Middle East; and (iii) South America with focus:
 - Phase I: salvaging operating businesses, inventorying investment assets and retaining resources to recover assets;
 - Phase II: ensuring preservation of LBHI claims in local receiverships.
- Key operating activities:
 - (i) sell the Private Equity platform businesses (UK/Asia/India +100FTEs); and
 - (ii) negotiate claims caused by wind-down arising from cash constraints, local legislation pertaining to management liabilities in insolvency situations and labor related liabilities e.g. Bankhaus, BLB France.

V. Asset Divestiture Team Issues *(continued)*

D. International Operating Assets (Ehrmann / Coles) (continued)

➤ Organization

- Local A&M resources: (i) Europe (12); (ii) Asia (6); (iii) Latin America (1);
- Ramp up required as a result of (i) "run" on assets by local receivers and (ii) local legislation pertaining to management liabilities;
- A&M has "touched" all European / South American entities and in process of doing the same in Asia;
- Initiated contact with local receivers (primarily PwC and KPMG).

V. Asset Divestiture Team Issues (continued)

D. International Operating Assets (Ehrmann / Coles) (continued)

➤ Issues

- Payroll and support services to International IMD & PE employees;
- "Run" on assets: salvage asset before entity goes "dark";
- Coordination with local receivers (KPMG/PwC);
- Identifying and recruiting employees required to enhance asset recovery.

V. Asset Divestiture Team Issues (continued)

E. Derivatives Book (Winter)

➤ Asset Overview

- Summary below is as of 8/31/08 (pre-terminations)
- Amounts presented exclude positions in LBIE, Asia, and positions sold to Barclays

(\$ in billions)

LBHI - Product View

	Assets	Liabilities	Net Assets
Government & Agencies	\$ 5	\$ 13	\$ (8)
Equities	30	6	24
Derivatives & Other	36	10	26
Total	<u>\$ 71</u>	<u>\$ 29</u>	<u>\$ 42</u>

Source: Lehman Brothers – 8/31 financial report package

64 CONFIDENTIAL – For Discussion Purposes Only



V. Asset Divestiture Team Issues (continued)

E. Derivatives Book (Winter) (continued)

(contracts in thousands)

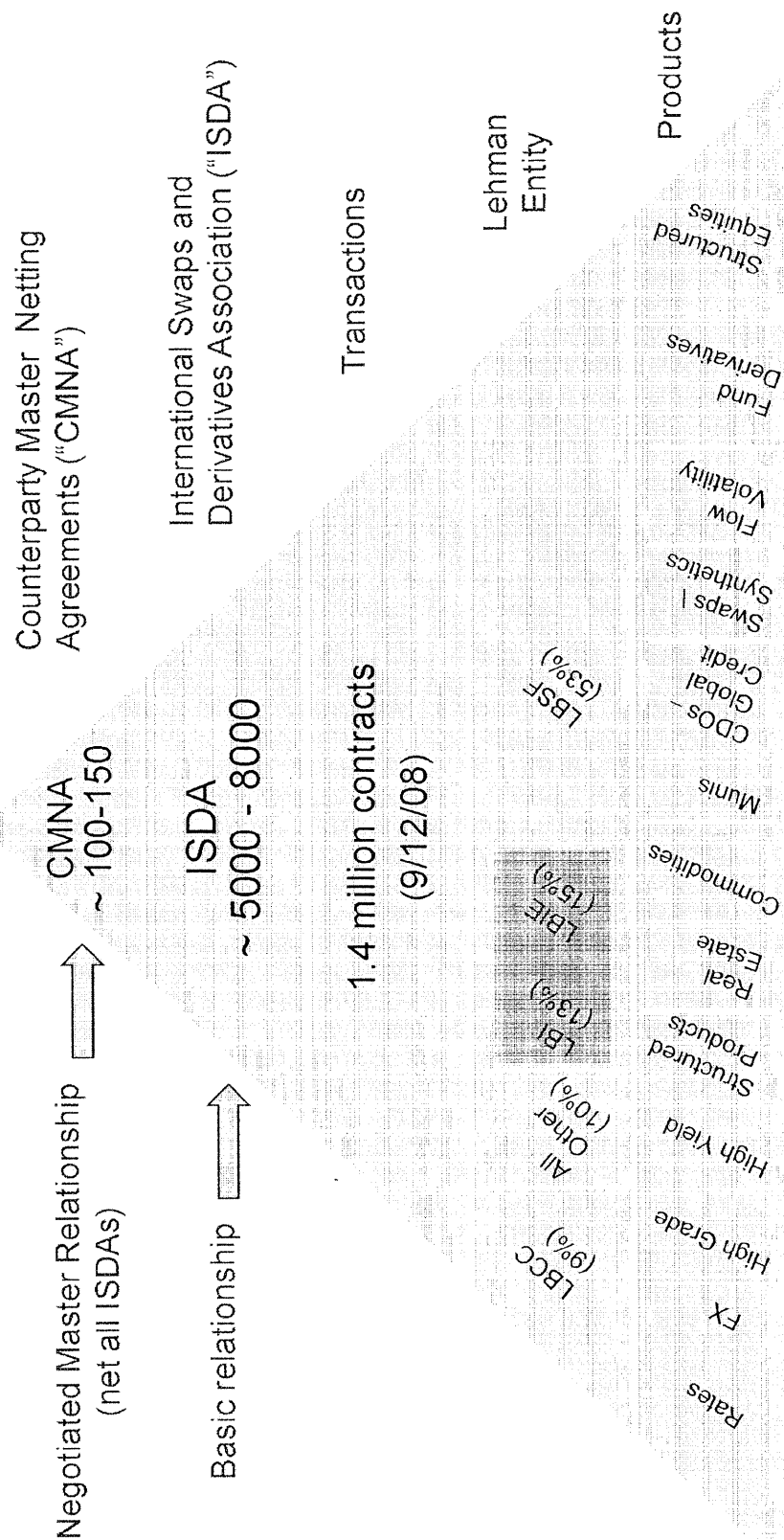
	09/12/08 (Fri Before LBHI Filing)	09/30/08
Total Contracts	1,415	581
<u>By Legal Entity</u>		
LBSF	743	208
LBCC	134	21
All Other	135	108
	1,012	337
	72%	58%
LBIE (separately administered)	218	188
LB1 (separately administered)	185	56
	1,415	581
	100%	100%
<u>By Product</u>		
Margin Lending	125	119
Credit Default Swap	375	119
SWAP	299	82
SBL	161	67
Foreign Exchange	159	27
All Other	296	167
	1,415	581
	100%	100%

Address open
contracts and
terminations



V. Asset Divestiture Team Issues (continued)

E. Derivatives Book (Winter) (continued)



Filed in other jurisdictions or under SIPA; not under direct recovery efforts of A&M/Lehman team

66 CONFIDENTIAL - For Discussion Purposes Only



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V. Asset Divestiture Team Issues *(continued)*

E. Derivatives Book (Winter) *(continued)*

- Organization
 - TSA has not been functional for the Derivatives Book
 - Continue to rely upon TSA but build out dedicated team possessing institutional knowledge to effect wind-down (across 13 financial product areas and multiple systems)
 - Recruiting team of 210
- Recruiting Program
 - To date have identified, interviewed, and commenced discussions with a over 150 potential candidates
 - We need approval to launch an aggressive hiring plan to staff the problem
 - All need to keep in mind the financial nature of this recruit

V. Asset Divestiture Team Issues *(continued)*

E. Derivatives Book (Winter) (continued)

- Key Issues
 - Portfolio processes need to be rebuilt
 - Barclays TSA ineffective - pricing and portfolio visibility not functional
 - Building out Team
 - Risk Management
 - Lag on closing out contracts - pricing and portfolio visibility not functional
 - ISDA Contract Resolution- Recovery of Assets /Mitigation of Liabilities
 - Coordination required
 - 1 million contracts – open (0.3 million) and terminated (0.7 million)
 - Lack of clarity on unpledged assets

V. Asset Divestiture Team Issues *(continued)*

F. Bank Platforms (Coles)

➤ Asset Overview

- 2 banks: LBCB (Utah Industrial Bank) and LBB (Delaware Thrift & Mortgage Servicer);
- Both banks comprise \$17.0 billion in assets and \$12.5 billion of brokered deposits;
- LBHI also owns \$1.6 billion of Mortgage Servicing Rights;
- Asset quality has been deteriorating with the market;
- If one bank fails, the other may follow due to participation linkages.

V. Asset Divestiture Team Issues *(continued)*

F. Bank Platforms (Coles) *(continued)*

➤ Cash Requirements

- The banks have receivables due from LBHI of over \$1.5 billion;
- Immediate liquidity needs are being addressed through sale of certain assets;
- Loan portfolio includes over \$15 billion of unfunded revolver commitments;
- Regulators (FDIC & OTS) are increasingly concerned;
- Risk of receivership in next 30-days is high.

V. Asset Divestiture Team Issues *(continued)*

F. Bank Platforms (Coles) *(continued)*

- Near Term Strategy
 - Lazard retained to manage sale process at both banks;
 - GE Capital is performing due diligence on LBCB (Utah);
 - LBB management presentations to interested parties scheduled for Wed, 10/8;
 - Regulators are informed of developments on a daily basis;
 - Monitoring developments in Washington that may provide relief;
 - A&M working with Houlihan to triage liquidity issues.

V. Asset Divestiture Team Issues *(continued)*

F. Bank Platforms (Ehrmann)

➤ BankHaus

- Lehman Brothers BankHaus (BH) is a German commercial bank used as a funding vehicle;
- LBHI has guaranteed BH's balance sheet.
- On 9/15 BH Board decided it was insolvent;
- On 9/15 BaFin (German Federal Financial Supervisory Authority) applies a moratorium which expires 10/27;
- On 9/17 BH hires KPMG to establish liquidation balance sheet for BH;
- On 10/1 GDPF (German Deposit Protection Fund – FDIC equivalent) indicated that it intends to enter into negotiations with LBHI to acquire BH's stock for Euro 1, release LBHI from all guarantees and provide LBHI with an earn out;
- Based on 9/17 balance sheet, BH's wind-down is likely to result in a significant asset shortfall and LBHI is likely to be liable for the shortfall unless released from its guarantees.

V. Asset Divestiture Team Issues (continued)

F. Bank Platforms (Ehrmann) (continued)

➤ BankHaus (continued)

(\$ in millions)

Assets	9/17/08 BS Value	Liabilities	9/17/08 BS Value
Reverse Repo	\$ 19,453.9	Third Party	\$ 23,232.3
Excess Liquidity	2,303.7	Intercompany	2,506.3
Long Term Loans	5,711.9	Capital and Res.	1,688.1
Other Assets	678.5	Miscellaneous	721.3
Total	\$ 28,148.0	Total	\$ 28,148.0

➤ Next Steps

- Negotiate a transaction with GDPF.

V. Asset Divestiture Team Issues (continued)

G. Other Assets

	<u>Planes / Artwork</u>		<u>Refunds</u>	<u>Tax Assets</u>	<u>Litigation Assets</u>
	<u>Book Value</u>	<u>Agreements to Sell</u>			
• 2008 G550	\$ 46 Million	\$ 58 Million	• NYS / NYC	• \$15 Million (this week)	• To be determined.
• 2001 GIV-SP	21 Million	25 Million	• Further refunds pending	• TBD (includes estimated tax paid and credits applied against open years).	• Locking down data and completing fact base.
• 1995 GIV-SP	11 Million	-			
• 1987 F50	8 Million	-			
• 1998 S-76C+ (Helicopter)	4 Million	-			
• Artwork	30 Million	-			
	<u>\$ 120 Million</u>	<u>\$ 83 Million</u>			



V. Asset Divestiture Team Issues (continued)

G. Other Assets (continued)

<u>Planes / Artwork</u>		<u>Tax Assets</u>		<u>Litigation Assets</u>
<p><u>A&M</u></p> <ul style="list-style-type: none"> • B. Gordon • J. Schwarz 	<p><u>Lehman</u></p> <ul style="list-style-type: none"> • F. Kittredge • K. Hoffman 	<p><u>A&M</u></p> <ul style="list-style-type: none"> • D. Coles • B. Fox 	<p><u>A&M (Tax)</u></p> <ul style="list-style-type: none"> • S. Hoffman • M. Lippman <p><u>Lehman</u></p> <ul style="list-style-type: none"> • J. Ciongoli • D. Steinberg 	<p><u>A&M</u></p> <ul style="list-style-type: none"> • J. Suckow • P. Kruse <p><u>Lehman</u></p> <ul style="list-style-type: none"> • T. Hommel • M. Sollinger
<ul style="list-style-type: none"> • Legal entities have now been filed / attempting to keep pending transactions on-line. • Art at 745 and the Neuberger Collection is locked up in Barclays and Bain / H&F transactions for a year – buyers get option at FMV. All other locations need control and monitoring. 		<ul style="list-style-type: none"> • Claims for open tax years may offset tax asset. • Sheer volume of filings: <ul style="list-style-type: none"> 1 Consolidated Federal 10 Unconsolidated Federal 4,000 State Income; 2,000 State Non-Income; 800 Foreign. • IRS litigation (1997 – 2000) liability (> \$850 million) at stake plus state tax consequences versus company claim of refund of \$500 million settlement, \$300 million made in 2006, \$200 million as credit in 2008. • ITS audit ongoing for 2001 to 2005 and 2006 to 2007. • Significant tax department (50 heads) and external professional fees. 		<ul style="list-style-type: none"> • Locking down data and completing fact base.

Contents

- VI. Claims Management Issues (Suckow)
 - A. Lehman's IT Organization (Lakhani)
 - B. Data Preservation and Analysis (Lakhani)
 - C. Forensic / Reconstruction (Kruse)
 - D. Ch 11 Administration and Litigation (Hertzberg)


ALVAREZ & MARSA

VI. Claims Management Issues (Suckow)

A. Lehman's IT Organization (Lakhani)

- Lehman ran a centralized IT organization such that data from different products and different departments was comingled. This centralized structure was an asset to Lehman prior to the bankruptcy, but post bankruptcy creates a significant challenge with preservation and de-coupling of systems.
- Where is the data stored?
 - Worldwide count of servers – 26,666 (229 Exchange / Outlook e-mail servers);
 - Largest data centers – 26,108 servers (New York, London, Tokyo, Hong Kong, Mumbai);
 - Lehman IT Department – 6,000 employees (US – BarCap 2,900; Europe – Nomura 1,500; Japan – Nomura 700; India – Nomura 900);
 - Legacy Lehman will be relying upon BarCap and Nomura for ongoing IT support and for the delivery of preserved data.

VI. Claims Management Issues (Suckow) (continued)

A. Lehman's IT Organization (Lakhani) (continued)

- Lehman stores a majority of their data in relational databases which are relatively easy to understand. However, a few systems are mainframe based, e.g. accounting system, forex, futures, and might require significant effort to understand. Additionally, mainframe based data is also difficult to extract.
- What are the types of transaction data?
 - Lehman used approximately 2,700 home grown, third party, and off-the-shelf software programs to run their business globally;
 - Each of these applications interacted with or created transaction data;
 - Key categories of transaction data (as of 10/8/2008) (Derivatives and Loans; Commercial Real Estate; Fixed Income & Equities; Trading; Risk Management; Cash and Securities Transfers; Market and Pricing Information; Customer Information; Accounting / Finance / Banking; Human Resources; Information Technology (Cost Allocation; Assets; Access Control).

VI. Claims Management Issues (Suckow) (continued)

B. Data Preservation and Analysis (Lakhani)

- The goal is to preserve all transaction data residing in Lehman systems on 9/19/2008. For analysis that requires data post 9/19, data will be requested from BarCap on a case by case basis because post 9/19 data needs to be de-coupled before it is collected.
- Analysis of Transaction Data
 - Transaction data will be stored in two locations:
 - Evidence Room at Lehman's 1271 offices
 - Alvarez & Marsal's Dallas lab
- The analysis for transaction data can be broken up into the following three steps (1) extract data; (2) understand the data; (3) perform the analysis.
- The analysis teams will include both A&M and FTI professionals such that each team will be led by A&M or co-led by both A&M and FTI.
- A&M will host the transaction data in their Lab in Dallas and will provide access to FTI professionals.

VI. Claims Management Issues (Suckow) *(continued)*

B. Data Preservation and Analysis (Lakhani) *(continued)*

- Lehman has accumulated emails, files, voice mail, recorded calls, and instant messages totaling more than two petabytes (2,000 terabytes). This equates to about 20,000 computers filled to the max with data.
- Lehman has communication data going back to January 1999. This is available and it will simply be retained and stored.

VI. Claims Management Issues (Suckow) (continued)

B. Data Preservation and Analysis (Lakhani) (continued)

- Prior to filing bankruptcy, Lehman used a combination of third party vendors and in-house personnel to respond to electronic discovery requests. Post bankruptcy, it is important to re-visit Lehman's electronic discovery process to identify areas of cost savings.
- Current Electronic Discovery Environment
 - Electronic Discovery & Email Storage
 - Iron Mountain (approximately \$4 million a year for storage);
 - DiscoverReady (used for e-discovery processing and contract attorney review).
 - 50 Thousand Backup Tapes
 - Month end email backup tapes have been restored between January 1999 to August 2004;
 - Currently restoring "middle of the month" email backup tapes;
 - Approximately 12 thousand tapes have been restored.

VI. Claims Management Issues (Suckow) *(continued)*

C. Forensic / Reconstruction (Kruse)

➤ Tasks

- Investigation of allegation of \$8 billion transfers between LBI and LBIE;
- Investigation of allegations regarding "collateral grab" by JPMorgan and Citi;
- Investigation of various transactions on the eve of the filing.

➤ Organization

- Phil Kruse, Managing Director;
- Xavier Oustainiol, Managing Director;
- Lauren Sheridan, Senior Director.

VI. Claims Management Issues (Suckow) (continued)

C. Forensic / Reconstruction (Kruse) (continued)

➤ Key Issues

- Alleged \$8 billion in transfers from LBIE:
 - Press reports appear to emanate from 9/19/08 declaration from PwC partner, Dan Schwarzmann;
 - Declaration does not allege any specific improper activity.
- Alleged "collateral grab":
 - On Sept 11, JP Morgan demanded from Lehman \$5 billion in additional collateral (easy-to-sell securities) to cover lending positions that J.P. Morgan's clients had with Lehman.

VI. Claims Management Issues (Suckow) (continued)

D. Ch 11 Administration and Litigation

➤ Tasks

- Master Creditor List – initial version will be turned over to Claims Agent by Court deadline of October 14, 2008;
- Statements and Schedules – preparation has begun, will be requesting a further extension beyond the current deadline of November 14, 2008;
- Monthly Operating Reports – collect initial data for turnover to the UST in accordance with Local Rules, will request an extension beyond the October 20, 2008 deadline for “stub period” report that is timed with receipt of 9/15/08 balance sheet;
- Claims Data Collation – preserve data related to the claims reconciliation process including, but not limited to, historical a/p detail, derivative contracts and termination reports, contracts;
- Litigation – preserve data, develop fact base, review conclusions, develop and implement strategy.

Contents



VII. Winddown (Fogarty)

- A. Transition Services (TSA)
- B. Headcount Report
- C. Employee Retention / Recruiting

VII. Winddown (Fogarty)

A. Transition Services (TSA)

➤ Background

- With loss of majority of personnel to Barclays – must maintain services and people access thru TSAs. There is a master TSA between Lehman Holdings and Barclays, which provides for assignments.
- Service schedules are being developed by Barclays – to be agreed upon within 30 days.
- TSA costs to be developed / negotiated – to be developed in 60 to 90 days.
- A&M is studying the corporate cost allocation model which will be the basis for future price negotiations with Barclays.

VII. Winddown (Fogarty) (continued)

A. Transition Services (TSA) (continued)

➤ Organization

A&M - Global:

- Bill Gordon (overall lead)
- Jeff Donaldson (IT)
- Arjun Lal (cost model captain)
- Mark Gilbert Every (Europe)
- Damien Drab (Asia)
- Rajeev Jain (India)

Lehman / Other:

- Etnyre Osias (Lehman)
- FTL resource (cost model)

VII. Winddown (Fogarty) (continued)

A. Transition Services (TSA) (continued)

➤ Key Issues

- Cooperation has improved modestly but will remain a key issue!
- Resolve cost schedule for main Lehman – Barclays TSA.
- Fully integrated IT systems, many of which are proprietary, are difficult to segregate.

VII. Winddown (Fogarty) (continued)

B. Headcount Report

	Headcount Plan	
US Headcount		
<i>Corporate Infrastructure</i>		
- Finance/Tax	84	
- Legal	19	
- Other	27	
	<u>130</u>	Net of RIF of 40
- Recruiting (Finance, Legal, IT)	35	
Total Corporate Infrastructure	<u>165</u>	
<i>Operating Teams Recruiting Plan</i>		
- Loan Book	20	
- Private Equity	15	
- Real Estate	46	
- Derivatives Book	210	
Total Operating Teams	<u>291</u>	
Lehman Wind-Down Team	<u>456</u>	
<i>Operating Businesses Held For Sale</i>		
- Asset Mgmt / NB (IMD)	1,912	
- Bank / Thrift (MCD)	1,596	
Total Operating Businesses Held For Sale	<u>3,508</u>	
Total Lehman US Headcount	<u>3,964</u>	



VII. Winddown (Fogarty) (continued)

C. Employee Retention / Recruiting

< > **Objective:**

- Field and incentivize appropriate team to control the assets of the estate and maximize value for constituents

< > **3 Key elements to ensure successful wind-down:**

- 1 . TSA People Access
- 2 . Retained Employee Compensation Plan - Retain and incentivize remaining Corporate and Operating Personnel
- 3 . Recruiting Plan - Recruit to fill voids and maximize value of key assets - Principal Investments, Real Estate, Derivatives Book, Loan book and Finance

VII. Winddown (Fogarty) (continued)

C. Employee Retention / Recruiting (continued)

(\$ in millions)

	Headcount	Lehman Wind-Down Compensation Plan *			Average		Severance
		Base	Bonus	Total	Commitment Period	Annual Comp (\$000's)	
Corporate Infrastructure	130	\$ 13	\$ 7	\$ 20	10	\$ 181	\$ 3
<u>Recruiting Plan</u>							
Real Estate	46	7	9	16	12	351	2
Loan Book	20	3	2	5	12	251	1
Principal Investments	15	8	6	13	15	712	2
Derivatives Book	210	37	54	90	12	430	8
Finance / Accounting / Legal	35	5	6	11	10	364	1
Total Recruiting Budget	326	59	77	136	12	416	14
	456	\$ 72	\$ 84	\$ 156	12	\$ 341	\$ 17

* Excludes operating units held for sale - Investment Management Division ("IMD") and Bank / Thrift ("MCD")

